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No. 88-1020

IN THE
Supreme Court of the United States
OCTOBER TERM, 1988

W. SCHLAFHORST & CO.,
AMERICAN SCHLAFHORST COMPANY
and GREENWOOD MILLS, INC.,
Petitioners,

v.

SCHUBERT & SALZER MASCHINENFABRIK
AKTIENGESELLSCHAFT,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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REPLY BRIEF FOR PETITIONERS

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REPLY BRIEF FOR PETITIONERS

Petitioners W. Schlafhorst & Co., American Schlafhorst Company, and Greenwood Mills, Inc. ("Schlafhorst") submit this Reply Brief in support of Schlafhorst's Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit.

ARGUMENT

A. The question presented in this case is whether Fed. R. Civ. P. 39(a) means what it says. The answer given by the Federal Circuit and Respondent Schubert & Salzer is "No." Schubert & Salzer's discussion of "waiver" reflects the same disregard of Rule 39(a) that makes the Federal Circuit decision both pernicious and worthy of certiorari. Nothing in the record shows that Schlafhorst made any stipulation consenting to a bench trial as required by Rule 39(a). Where there has been a timely jury demand (as there was here), the plain meaning of Rule 39(a) is that the right of trial by jury is preserved except upon either a written stipulation or an "oral stipulation made in open court and entered in the record" consenting to a bench trial.

The distinction between "waiver" and a Rule 39(a) stipulation is critical. If Rule 39(a) means what it says, then a "waiver" by silence or inaction should be an insufficient ground on which to deprive a party of its seventh amendment right to trial by jury. *Zidell Explorations, Inc. v. Conval Int'l, Ltd.*, 719 F.2d 1465, 1469 (9th Cir. 1983); *Palmer v. United States*, 652 F.2d 893, 896 (9th Cir. 1981); *DeGioia v. United States Lines Co.*, 304 F.2d 421, 424 n.1 (2d Cir. 1962).

This case is not fact-bound. The question presented is nothing more factual than whether the lower federal courts should apply the "precise terms" of Rule 39(a), *Palmer*, 652 F.2d at 896, or should follow the approach of the Federal Circuit and disregard the stipulation requirement of that rule. The Fourth Circuit has noted the disagreement among the courts of appeals on this issue. *United States v. 1966 Beechcraft Aircraft Model King Air*, 777 F.2d 947, 950-51 (4th Cir. 1985) ("Several courts have concluded that the right to a jury trial, once properly demanded, may be waived only through strict compliance with the precise terms of Fed. R. Civ. P.

38(d) and 39(a). [citations omitted] Other circuits, however, have held that Rules 38(d) and 39(a) are not to be so strictly interpreted."). Since this question directly affects the right to trial by jury, this Court should grant certiorari.

B. Schubert & Salzer asserts that "there was a stipulation consenting to a bench trial entered into the record and embodied in the Judge's Order," but nowhere in Schubert & Salzer's Brief (or in the opinion of the Federal Circuit) is there any citation to the record showing any express consent by Schlafhorst to a nonjury trial.

As substitutes for a Rule 39(a) stipulation, the Federal Circuit and Schubert & Salzer point to: (i) the absence of any explicit objection from Schlafhorst to the remarks of the Magistrate concerning the role of the jury on the section 135(c) issue; and (ii) Schlafhorst's arguments that the section 135(c) issue was one of law to be decided on summary judgment or directed verdict. Neither substitute is sufficient.

Even if the Magistrate had been clear and consistent that the jury would be advisory (rather than confused and equivocal as he was), Rule 39(a) requires a stipulation. A failure to object is not a stipulation. The difference is shown by comparing this case with *West v. Devitt*, 311 F.2d 787, 788 (8th Cir. 1963), which was cited by Schubert & Salzer, Brief Opp. 11 n.65, where the court *quoted* the express stipulation made in open court that clearly satisfied Rule 38(a). This is an important issue because the right to a jury trial is important. The Federal Circuit treated this constitutional right, and the Federal Rules of Civil Procedure that protect it, as unworthy of serious analysis.

Astoundingly, neither the Federal Circuit nor Schubert & Salzer even cited Fed. R. Civ. P. 50(a), which provides that "[a] motion for directed verdict . . . is not a waiver of trial by jury." (Schlafhorst raised Rule

50(a) in both its opening and reply briefs in the Federal Circuit; in its petition for rehearing, Rule 50(a) was the *first* point Schlafhorst stated had been overlooked by the Federal Circuit.) It would, of course, be impossible for the Federal Circuit to cite Rule 50(a) and reach the result (as the Federal Circuit did) that Schlafhorst lost the right to a jury trial by moving for a directed verdict.

C. In contrast to the Federal Circuit's decision here, the Third Circuit's recent decision in *Bereda v. Pickering Creek Industrial Park, Inc.*, No. 88-1202 (3d Cir. Jan. 6, 1989), reflects a serious analysis of the Federal Rules of Civil Procedure. In *Bereda* (which was decided after Schlafhorst's petition for certiorari was filed), plaintiff's sex discrimination claim was not triable of right to a jury, but the parties demanded a jury, and the claim was tried to a jury. After the verdict, the district court ruled that the jury was only advisory.

The question presented in *Bereda* was "at what stage in a case tried by a nonadvisory jury by the demand of both parties must the presiding judge indicate that the jury's verdict is advisory only and not a verdict with 'the same effect as if trial by jury had been a matter of right.'" The Third Circuit held that Rule 39(c) requires that the trial judge "must notify both sides of a jury's advisory status no later than the time at which the jury selection has begun."

The court reasoned that "considerations of fairness to the litigants indicate that Rule 39(c) should not be interpreted to allow a district judge to rule a jury verdict advisory after the parties have begun to implement their trial plan. . . ." Quoting with approval from *Hildebrand v. Board of Trustees*, 607 F.2d 705, 710 (6th Cir. 1979), the court noted that "[t]o convert a trial from a jury trial to a bench trial (or vice-versa) in the middle of the proceedings is to interfere with counsel's presentation of their case and, quite possibly, to prejudice one side or

the other." In short, the Third Circuit in *Bereda* is sensitive to the unfairness that, as a practical matter, results from a shift in the role of the jury late in a trial.

The Federal Circuit's decision here, in contrast to *Bereda*, authorizes the conversion from a binding jury to an advisory jury at the end of the trial without the express consent of either party. Schlafhorst tried its case to a jury, and won, only then to see the Magistrate disregard the jury's verdict on the sole ground that it was advisory. Under the reasoning of the Third Circuit in *Bereda*, this result is impermissible because the Magistrate finally decided to treat the jury as advisory long after the jury was selected and after Schlafhorst had put its trial strategy into effect.

D. Schubert & Salzer argues that "Schlafhorst disavowed any reliance on Schubert's [jury] demand by repeatedly urging that the [section 135(c)] defense be decided by the Judge." Brief Opp. 15. As argued above, Schlafhorst's arguments that the section 135(c) issue should be decided as a matter of law were all made in the context of its motions for directed verdict or (at the start of the trial) for summary judgment, under the express protection of Fed. R. Civ. P. 50(a) (which neither the Federal Circuit nor Schubert & Salzer cited).

There is also another reason for rejecting Schubert & Salzer's 'reliance' argument: Schubert & Salzer *itself* never withdrew its jury demand or stipulated to an advisory jury. In its Statement of the Case, Schubert & Salzer misstates the record by placing its reply "All right" immediately after the Magistrate's statement "that he would send the 135(c) defense to the jury 'advisory' and that he would 'decide afterwards' if he had to." Brief Opp. 6 (*paraphrasing* J.A. 1950). In fact, the "All right" was spoken *two days before* and closely followed Schubert & Salzer's assertion to the Magistrate that the section 135(c) issue would be "a jury question!" *See* Brief Opp. 12-13 (*quoting* J.A. 1517). The colloquy at J.A. 1517, taken fairly as a whole, contemplates only

the procedure set out in Rule 50(b), which provides that when a motion for directed verdict is not granted, "the court is deemed to have submitted the action to the jury subject to a later determination of the legal questions raised by the motion."

The plain fact is that Schubert & Salzer, like Schlafhorst, understood that the jury's verdict was binding. Why else would Schubert & Salzer itself have moved for a directed verdict on the section 135(c) issue? J.A. 1937. Why else would Schubert & Salzer, immediately after the verdict, ask for a poll of the jury "to make certain they understand who they [are] ruling for?" J.A. 2136.

E. In practical effect, Schubert & Salzer interprets 35 U.S.C.A. § 135(c) as follows: An illegal agreement in restraint of trade that destroys a party's economic incentive to litigate an interference in good faith need not be filed with the PTO, provided only that the agreement does not mention the interference, and that there is self-serving testimony that the agreement was not the reason for terminating the interference. According to Schubert & Salzer, it is simply irrelevant that the secret pooling agreement here removed any economic reason for Rieter to pursue the interference and that the secret partners entered into the Supplement to the pooling agreement contemporaneously with the termination of the interference.

The Federal Circuit actually accepted this evisceration of section 135(c), and therefore review by this Court is warranted.

The rule in the Federal Circuit is plainly wrong, because it permits easy evasion of section 135(c). All a terminating party need do is avoid any mention of the interference in a pooling agreement with its putative opponent and then present testimony that the subjective motive for terminating the interference was not the agreement but instead a belief that the other side had the better case. It is difficult to accept that this is what

Congress and the Department of Justice intended when section 135(c) was enacted.

The correct interpretation of section 135(c), which the Federal Circuit should have adopted, is that an agreement must be filed if it has a causal connection to the termination of the interference, and that such a causal connection exists where, because of an agreement with the other party to the interference, the terminating party has no incentive to seek to prevail in the interference.

F. Schubert & Salzer is clearly uncomfortable with the term "patent pool," and prefers "joint research and development." The secret agreement, however, is quite similar to the patent pool in the glass industry that this Court struck down in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 400, *clarified*, 324 U.S. 570 (1945), and so whatever Schubert & Salzer wishes to call its secret agreement should not obscure the important point that an agreement among competitors to share all patents in a given field has significant restrictive effects.

Schubert & Salzer's claim that Rieter "lost valuable royalty rights" by not pursuing the interference is overstated. The secret agreement prohibits any partner, including Rieter, from licensing any patent within the scope of the agreement to any third party without the consent of all the partners. The evidence discussed by Schlafhorst in its petition at pages 7 and 19 shows that the partners would be unlikely to consent, and indeed even Schubert & Salzer does not claim that consent would be forthcoming. Thus, Rieter had in reality nothing to gain even if it had won the interference.

G. Schubert & Salzer invites a contrast between its secret patent pool, and the agreement between Schlafhorst and Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH ("Suessen"). Brief Opp. 1 n.1. The Schlafhorst/Suessen agreement is confidential, but (unlike Schubert and Salzer and its "friendly competitors") Suessen and Schlafhorst are not competitors. Instead, Sues-

sen is a supplier to Schlafhorst of components, and therefore the agreement between them is vertical, not horizontal.

Finally, Schubert & Salzer complains that its description of the secret partners as "friendly competitors" was taken out of context, and states that it is "misleading" for Schlafhorst to assert that "competitors must be unfriendly, uncivil, or compete unfairly to avoid the stigma of antitrust implications." That was not Schlafhorst's meaning at all. Instead, Schlafhorst took Schubert & Salzer's statement "[t]hey were friendly competitors, that's what the whole system is about," to be an apt and candid description of a naked conspiracy in violation of this country's antitrust laws, a conspiracy that included Schubert & Salzer. The jury's verdict in favor of Schlafhorst shows that the jury concluded that the secret agreement among the "friendly competitors" should have been filed with the PTO, and their verdict should be entered as the judgment in this case.

CONCLUSION

For the reasons stated in the Petition and in this Reply Brief, Petitioners ask that a writ of certiorari issue to the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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